

IRS News Release

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IRS Initiative Will Scrutinize EO Compensation Practices

IR-2004-106, Aug. 10, 2004

WASHINGTON — The Internal Revenue Service today announced a new enforcement effort to identify and halt abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders.

As part of the Tax Exempt Compensation Enforcement Project, the IRS will contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures. The IRS said the enforcement project will consist of examinations as well as other contacts. Because part of the project's objective is to gather information regarding current practices, contact by the IRS should not necessarily imply improper activity by an organization.

"We are concerned that some charities and private foundations are abusing their tax-exempt status by paying exorbitant compensation to their officers and others," said Mark W. Everson, Commissioner of the Internal Revenue Service.

"Particular organizations that we contact may or may not have problems in the compensation area, but specific aspects of their operations have raised questions that must be answered," he said. "The IRS has an obligation to investigate questionable compensation practices and put a stop to abuses we find," he said. "We won't let the misbehavior of a few organizations damage the credibility of the vast majority of law-abiding charities and foundations."

The purposes of this project are to:

- address the compensation of specific individuals or instances of questionable compensation practices,
- increase awareness of tax issues as organizations set compensation in the future,
- learn more about the practices organizations are following as they set compensation and report it to the IRS and the public on their annual Form 990 returns.

The initiative will focus on particular areas including the compensation of specific officers and various kinds of insider transactions, such as loans and the sale, exchange or leasing of property to officers and others. The IRS will also focus on Form 990 reporting, including how organizations answered question 89(b) on their Form 990 – about excess benefit transactions – and other compensation information.

The IRS began this enforcement project at the end of July and says it will continue into 2005.